



Intellectual
Property
Owners
Association

Statement of

J.JEFFREY HAWLEY

PRESIDENT

INTELLECTUAL PROPERTY OWNERS ASSOCIATION

Before the

**HOUSE JUDICIARY SUBCOMMITTEE ON COURTS,
THE INTERNET, AND INTELLECTUAL PROPERTY**

on

“COMMITTEE PRINT REGARDING PATENT QUALITY IMPROVEMENT”

Wednesday, April 20, 2005
4:30 p.m.

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)
1255 23RD STREET, NW SUITE 200
WASHINGTON, DC 20037
P: 202/466-2396 • F: 202/466-2893 • E: INFO@IPO.ORG
WWW.IPO.ORG

Intellectual Property Owners Association (IPO)

Mr. Chairman and Members of the Subcommittee:

My name is J. Jeffrey Hawley. I am Legal Division Vice President and Director, Patent Legal Staff, for Eastman Kodak Co. in Rochester, New York. I am speaking today on behalf of Intellectual Property Owners Association (IPO), of which I am the current elected President.

IPO is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights. IPO's membership overlaps with the membership of many organizations, including BIO and BSA who are here today. IPO members include more than 100 large and medium-size corporate members and a number of small business and individual inventor members. Our members file about 30 percent of the patent applications that are filed in the United States Patent and Trademark Office (PTO) by U.S. nationals. In addition to our legislative interests, we comment frequently and in detail on PTO rules changes and file amicus briefs in cases of interest to us. We have more than 850 people volunteering in 34 standing committees studying trends in IP law.

We appreciate the opportunity to discuss the April 14 Committee Print, which contains more than a dozen significant proposals for improving the patent system. We compliment the Subcommittee on assembling so many promising ideas. IPO enthusiastically endorses a majority of the proposals in the Committee Print. I will give an overview and then summarize our reaction to each proposal.

Intellectual Property Owners Association (IPO)

OVERVIEW OF PTO AND PATENT LITIGATION ISSUES

Our members almost universally believe the patent system needs improvement. IPO was one of the first organizations to say that the PTO was in a “crisis,” when we testified before this Subcommittee in 2001. We expressed concerns about the quality of patents granted by the PTO and the growing length of time required to grant or deny a patent. Since that time, reports from the Federal Trade Commission (FTC) and from the National Academy of Sciences (NAS) have recommended a number of changes to the patent system to improve its effectiveness in encouraging innovation in U.S. industry. In 2002 we endorsed the PTO’s 21st Century Strategic Plan, which is directed at improving PTO operations and is now being implemented.

The diversion of more than three-quarters of a billion dollars in PTO user fees since 1992 has been a major factor in the PTO crisis. If the PTO had had the opportunity to spend the diverted funds, which were paid by our members and other PTO users for services they expected to receive, today’s picture would be very different. We are optimistic that the situation at the PTO can be improved. Director Jon W. Dudas is acting aggressively with the aid of more than \$200 million annually in additional funding provided by last December’s patent fee increase to address the office’s problems. We understand that the PTO is hiring more patent examiners and making efforts to improve employee recruiting and training, recertify examiner skills, and improve patent procedures. We are cautiously optimistic that no more user fees will be diverted in the short term. The threat of fee diversion remains, however, and IPO will therefore continue to support this Subcommittee’s work to enact legislation to permanently end fee diversion.

Intellectual Property Owners Association (IPO)

No silver bullet exists, of course, that can turn the PTO around overnight. The patent quality problem is complex and not amenable to any single solution. The time required to grant or deny a patent will continue to increase for some years despite stepped-up patent examiner hiring, because new examiners must undergo an extensive training program to become productive and because training large numbers of new examiners takes experienced examiners off the production line. We are in an environment in which confidence in the validity of patents will continue to be lower than desirable for the foreseeable future and the time required to grant or deny a patent will be far longer than the traditional goal that IPO continues to support – an average of 18 months after filing the initial application until patent grant or denial.

The problems with patent quality and long PTO delays create uncertainty about legal rights in technology. Uncertainty discourages investment by patent owners and their competitors in research, development, and commercialization of new products needed to maintain the country's technological and economic strength.

Our members have experienced a sharp rise in patent litigation costs. Hildebrandt International's 2004 Law Department Survey reported that the companies surveyed spent 32 percent more on outside counsel for intellectual property litigation in 2003 than in the previous year. They spent only one percent more for outside counsel on non-IP litigation. Some IPO members believe a substantial portion of the rise in litigation costs can be attributed to organizations that have engaged in abusive practices including threatening frivolous lawsuits.¹ A number of suggestions have been made by companies in the

¹ See generally materials from March 14, 2005 IPO conference "Patent Trolls and Patent Property Rights" (materials available from IPO).

Intellectual Property Owners Association (IPO)

information technology industry and others for legislation to reform patent litigation.

IPO believes some of these ideas have merit.

Our members are also faced with high patent costs for protecting their technology internationally. Under the existing system U.S. applicants must file separate patent applications in separate countries and regions that require different application content and format. This process is costly and inefficient. In addition, patent offices around the world are wasting large sums by duplicating each others' efforts in patent searching.

A worldwide patent law harmonization treaty is needed. We also believe international patent expenses can be reduced through administrative and other changes by the U.S., Japanese, and European patent offices, which receive the bulk of applications from U.S. industry. Last week IPO, the American Intellectual Property Law Association (AIPLA), the Japanese Intellectual Property Association (JIPA), and the European industry association UNICE held the fourth in a series of meetings to develop recommendations to enable the same patent application to be filed, searched, and processed in the three largest offices without the need for amendment during the granting process. We hope to publish our final recommendations before the end of the year. Many of the changes required to harmonize the world's patent laws will require legislation, and we support the harmonization-related legislative proposals in the Committee Print.

POST-GRANT OPPOSITION PROCEDURES AND INTER PARTES REEXAMINATION PROCEDURES

Section 9 of the Committee Print establishes a new post-grant opposition procedure. Establishment of a post-grant opposition feature was recommended in both the FTC and NAS reports. Under Section 9, post-grant opposition would enable any

Intellectual Property Owners Association (IPO)

competitor of a patent owner or other member of the public to make a request not more than nine months after the grant of a patent for the PTO to reconsider whether the patent should be granted.² The party requesting an opposition could raise any of the statutory requirements for patentability as an issue for invalidity of the patent. The PTO Director could dismiss a request lacking substantial merit and would be required to complete the opposition procedure within one year. Limited discovery would be available and appeals could be taken to the U.S. Court of Appeals for the Federal Circuit.

IPO strongly endorses establishing this type of post-grant opposition proceeding. We believe the opportunity to request an opposition should be available only for nine months after the grant of the patent. The alternative view is that oppositions should be available at any time after the grant of the patent throughout its life or at least for a period of time at any time after the patent owner receives a notice of alleged infringement or an offer to license. Those favoring a short window of time after patent grant for requesting opposition, including IPO, tend to view the opposition procedure as an additional review of the patent examination process in the PTO and an opportunity for members of the public to submit information and present arguments that may not have been available to the Office. Those favoring making oppositions available throughout the life of the patent tend to view the procedure as an alternative to patent validity litigation in U.S. District Courts. This would be similar to the “revocation” process that is found in the procedure of many foreign countries. Although an opposition procedure should not be viewed as a substitute for the Office performing a thorough initial examination, the existence of an opposition procedure will reduce uncertainty and increase confidence by patent owners and the public in the quality of patents that have survived an opposition or have not been

² Committee Print, pp. 36-49.

Intellectual Property Owners Association (IPO)

opposed. Limiting the time for oppositions will help avoid possible harassment of patent owners and avoid large numbers of opposition proceedings that would overtax the Office's ability to handle the proceedings. Importantly, an indefinite period of opposition exposure would hinder the ability of startup companies to receive prompt funding through the venture capital system.

Any opposition proceeding must be carefully balanced to protect the interests of patent owners and competitors and to maintain the value of patents as an encouragement for invention, research, development, and commercialization. Changing one feature of a proceeding may require changing other features in order to maintain the desired balance. IPO has studied opposition procedures and developed a list of 16 inter-related attributes that we believe would provide a balanced proceeding and improve patent quality. Our list is attached to this statement as an Appendix.

Only a few of our suggested attributes differ from those in the Committee Print. We recommend that: (1) the standard of proof applied during an opposition proceeding should be the clear and convincing evidence standard; (2) the requester of an opposition proceeding should be required to publicly disclose its identity in every case; and (3) an opposition proceeding requested by an accused infringer should be stayed if an infringement suit is filed against the accused infringer in a district court before the opposition is requested.

Section 9 of the Committee Print modifies the existing "inter partes reexamination" proceeding that was established in 1999 by the American Inventors Protection Act.³ Inter partes reexamination proceedings differ from the proposed post-grant opposition proceedings in that inter partes reexaminations are available at any time

³ Committee Print, p. 35.

Intellectual Property Owners Association (IPO)

during the life of the patent and are limited to patentability issues based on earlier patents or publications describing the invention at issue – documentary prior art. The Committee Print expands inter partes reexaminations by (1) removing the limitation that a requester is estopped from asserting at a later time patent invalidity on any ground that the requester “could have raised” during the reexamination proceeding; and (2) making inter partes reexamination available for any patent granted on any date. The American Inventors Protection Act limited inter partes reexamination proceedings to patents granted on applications filed after November 29, 1999. The two limitations on inter partes reexamination addressed by the Committee Print have prevented significant use of inter partes reexamination to date. Only about 75 inter partes patent reexaminations have been requested. IPO supports the changes in inter partes reexamination in the Committee Print. We believe that with these changes, inter partes reexamination will be used more often. It will serve as a useful complement to the proposed post-grant opposition proceedings by providing a relatively simple and inexpensive proceeding for challenging a patent at any time during its life on the limited grounds – documentary prior art – on which the PTO has the most experience. With emphasis on prompt reexamination announced by Director Dudas recently, inter partes reexamination will also be a relatively rapid proceeding for obtaining determinations of patentability. Availability of an improved inter partes reexamination proceeding bolsters the case for limiting post-grant opposition proceedings to a nine-month period after grant.

Intellectual Property Owners Association (IPO)

WILLFUL INFRINGEMENT AS BASIS FOR TREBLE DAMAGE LIABILITY

IPO supports the amendment in Section 6 of the Committee Print that clarifies and limits the law on awards of treble damages for patent infringement.⁴ The section implements recommendations of the FTC, the NAS and others including IPO that treble damages should be assessed against infringers only in limited situations. Some companies have stated that existing judicial interpretations on treble damages have caused them to be wary of even permitting their employees to read competitors' patent documents for fear the company will be found to be on notice of infringement for purposes of treble damages liability. Some feel that treble damages are too readily available and encourage owners of questionable patents to file law suits and obtain settlements in cases in which defendants have not knowingly infringed a valid patent.

The Committee Print prohibits an inference of willful infringement based on the absence of an opinion of counsel and prohibits treble damages based merely on knowledge of a patent or its contents by the defendant. The Committee Print limits treble damages to specific situations including instances where the defendant has received a detailed written notice from the patent owner charging infringement and identifying the specific patents, claims, and allegedly infringing products or processes. A significant feature of this provision in the Committee Print is that the notice from the patentee must be sufficient to give declaratory judgment jurisdiction to the receiver of the notice. This prevents the current tactic used by abusers of placing the receiver of the notice in legal limbo – subject to the possibility of treble damages but with no legal remedy to resolve the situation. Other circumstances in which the Committee Print approves treble damages are those in which (1) the defendant intentionally copied the patent subject

⁴ Committee Print, pp.29-31.

Intellectual Property Owners Association (IPO)

matter and (2) the patent was asserted against the defendant in a previous judicial proceeding.

We believe these reforms on willfulness and treble damages will reduce litigation costs and discourage unwarranted suits. These reforms together with limited post-grant opposition proceedings and improvements in inter partes reexamination proceedings would constitute significant reform of the patent litigation system.

RIGHT OF FIRST-INVENTOR-TO-FILE

Section 3 of the Committee Print awards the patent to the first-inventor-to-file when two inventors file patent applications, changing the traditional U.S. first-to-invent procedure. IPO supports this change.⁵

Awarding the patent to the first-inventor-to-file eliminates interference proceedings in the USPTO. Fewer than one-tenth of one percent of patent applications become involved in interference proceedings, but proceedings are costly and the possibility of another party proving a date of invention earlier than the invention date of the first party to file causes uncertainty for patent rights. Data compiled recently by Gerald J. Mossinghoff, a former head of the PTO, indicates that small inventors fare no better under the first to invent system than they would under a first to file system and perhaps not as well.⁶ The Committee Print correctly uses the term “first-inventor-to-file” to avoid any suggestion that a person who is not an inventor can obtain a patent by filing an application earlier than the inventor.

⁵ Committee Print, p. 7, amending 35 U.S.C. 135.

⁶ Washington Legal Foundation Civil Legal Issues No. 129, April 15, 2005.

Intellectual Property Owners Association (IPO)

IPO supports first-inventor-to-file because it is the best system for the U.S. While its adoption would have a less immediate effect on the U.S. patent system than many of the other proposals in the Committee Print because of the small number of cases involved, adoption of first-inventor-to-file system would have important ramifications for the current talks on a possible substantive patent law harmonization treaty. The U.S. is the only country in the world with a first-to-invent system. In past harmonization talks the unwillingness of the U.S. to change its system has been an emotional issue with other countries. Additional visible support for a first-inventor-to-file system in the U.S. has come recently in the form of endorsements by the American Bar Association and the NAS report. Introduction of a bill in Congress would be a positive sign that the U.S. may be prepared to eliminate one of the obstacles to substantive patent law harmonization.

INJUNCTIONS

Section 7 of the Committee Print makes it more difficult for patent owners to obtain injunctions to stop infringement of patents.⁷ Reducing the availability of injunctions was not a feature of either the FTC or the NAS report. The IPO position will have to be updated, but when this specific proposal was reviewed by the Board of Directors in 2001, exactly as worded in Section 7, most members of the board were unwilling to support it. I will explain the case against the proposal, which contains concepts that IPO has strongly rejected over the years – compulsory licensing and a requirement for the patent owner to use the patented invention.⁸

⁷ Committee Print, pp.31-32.

⁸ The U.S. Government has also been consistently critical of compulsory licensing and working requirements in international negotiations.

Intellectual Property Owners Association (IPO)

A fundamental distinguishing feature of American intellectual property rights for more than 200 years, embodied in Article I, Section 8, Clause 8 of the U.S. Constitution, is that patent and copyrights rights are EXCLUSIVE rights. Exclusivity comes from the availability of permanent injunctions. Many believe the principle of exclusivity has contributed mightily to America's leadership in technology, in the case of patent rights, and to literary and artistic creativity, in the case of copyright. Exclusive rights should be available to the same extent for patented inventions and for copyrighted works such as books, motion pictures, sound recordings, and software. We expect that because of the way it is written, this particular proposal would come under constitutional attack.

We understand the proposal to be directed to permanent injunctions. It is sometimes said permanent injunctions issue as a matter of course at the conclusion of patent or copyright litigation. Professor William C. Robinson of Yale University explained the distinction between preliminary and permanent injunctions in his classic 1890 treatise *The Law of Patents*:

A preliminary injunction is not, like a perpetual injunction, a matter of course, nor can its issue be governed by any formulated and established rules. . . . A permanent injunction issues as a matter of course, at the conclusion of a suit in equity, whenever the plaintiff has sustained the allegations of his bill, provided the patent has not then expired.⁹

This is not precisely today's law, however, and permanent injunctions do not issue as a matter of course. A permanent injunction is not issued if a case is exceptional –i.e., if a sufficient reason exists for denying it. Permanent injunctions have been denied, for example, because the defendant agreed to eliminate the infringement within a period of time, or because of laches or estoppel, or, in rare cases, because of “public interest.”

⁹ Robinson, *The Law of Patents* (1890), §§ 1170 and 1220.

Intellectual Property Owners Association (IPO)

By introducing a standard that, “A court shall not grant an injunction . . . unless . . . the patentee is likely to suffer irreparable harm that cannot be remedied by payment of money damages, the proposed language in the Committee Print would make a drastic change in existing law. A permanent injunction would be *denied unless there was a reason to grant it* – the opposite of the law today, where it is *granted unless there is a reason to deny it*. Also, a major new hurdle would be introduced with the requirement for irreparable harm, which is a preliminary injunction concept. The likely effect of these two changes would be to make patent rights in the U.S., in many cases, subject to compulsory licensing, a common feature of patent systems abroad. In addition, the Committee Print as presently worded would make injunctions more difficult to obtain if a patent owner is not using the invention. By encouraging courts to consider the patent owner’s use, this would essentially establish a requirement similar to “working requirements” found in patent laws abroad that provide weaker incentives for innovation. IPO has consistently been opposed to working requirements.

By removing the prospect of obtaining a permanent injunction in many cases, Section 7 would remove an injunction as the patent owner’s leverage to encourage infringers to settle disputes by taking licenses. With reduced prospect of an injunction, voluntary license agreements would become more difficult to obtain and royalty rates would be more often determined by courts and less often by market forces.

Supporters of this particular injunction proposal cite with approval the fact that it would reduce the bargaining power of patent holders and make it less likely that companies would be forced to shut down product lines. The supporters feel they are being threatened with too many patents of questionable validity or scope. We understand

Intellectual Property Owners Association (IPO)

the frustrations with the current patent litigation environment, but other approaches exist for reducing patent litigation and for avoiding becoming subject to a permanent injunction.

Permanent injunctions often are not issued because the parties can negotiate a settlement or else the accused infringer can redesign its product during the several years usually required to complete patent litigation. If a product cannot be redesigned to avoid a patent, it may be an indication the patent is for a fundamental invention and the infringer should be prepared to withdraw the product and expect to pay large compensation. Manufacturers can help themselves avoid patent infringement by monitoring and analyzing patents and patent applications as they are published by the PTO and by conducting product clearance patent searches before new products are put on the market. These practices are followed routinely in many industries.

The encouragement for courts to consider whether the patent owner produces the invention itself, in the second part of Section 7 of the Committee Print, is tantamount to a working requirement. This is inconsistent with the concept of patents as intellectual property rights. A working requirement would greatly diminish the value of patents and the incentives for innovation they provide, particularly for universities, which are not manufacturers, and for small businesses and inventors who may lack resources to have a patented product or service on the market before litigation.

We believe the proposed changes in the law on availability of injunctions, as worded in Section 7, would be a major blow to incentives for innovation provided by the American patent system and would result in a huge decline in the value of patents now in

Intellectual Property Owners Association (IPO)

force. The role of the patent system in maintaining America's technological leadership would be diminished.

Before deciding whether to adopt this specific proposal on injunctions, we recommend that the Subcommittee obtain more information than we have been able to collect in advance of this hearing on the large number of cases in which patent injunctions have been granted and denied, and the effects on various industries of making injunctions more difficult to obtain.

OTHER PROPOSALS IN COMMITTEE PRINT

DEFINITION OF PRIOR ART

Section 3 of the Committee Print revises the definition of "prior art."¹⁰ These changes accommodate the first-inventor-to-file system. Certain changes are required in the definition of prior art for a first-to-file system. The Committee Print makes additional changes in the definition of prior art that are not necessary for a first-to-file system but which are designed to clarify and improve the law. IPO supports these changes as part of the switch to a first-to-file system.

FILING OF PATENT APPLICATIONS BY ASSIGNEES

Section 4 of the Committee Print permits a party to whom the inventor has assigned or is under an obligation to assign the invention (i.e., the real party in interest) to file the patent application on behalf of the inventor.¹¹ The Committee Print provides that if a patent is granted to the real party at interest, the inventor will be given such notice as

¹⁰ Committee Print, pp. 3-6, amending 35 U.S.C. 102.

¹¹ Committee Print, p.9.

Intellectual Property Owners Association (IPO)

the USPTO Director considers to be sufficient. IPO supports assignee filing as a useful simplification in the procedure for filing applications.

ELIMINATION OF BEST MODE REQUIREMENT

Section 4 of the Committee Print amends the patent code to eliminate the requirement that an inventor must set forth the best mode contemplated of carrying out the invention.¹² The 2004 National Academy of Sciences report identified this change in law as one of three changes that might be made to eliminate subjective elements in patent litigation and thereby reduce the cost of litigation and increase the predictability of litigation outcomes.¹³ IPO supports the change.

DUTY OF CANDOR

Section 5 of the Committee Print codifies a duty of candor owed to the PTO by patent applicants and other parties.¹⁴ IPO is still studying the need for legislation on this subject. The NAS report recommended duty of candor legislation as a way to limit the subjective elements of patent litigation. The duty of candor today is defined by PTO rules and court decisions. It is important to have a strong duty of candor that requires patent applicants to submit relevant prior art they know about to the PTO. Prior art submissions are essential to help insure the quality of granted patents. We would not favor any legislation that would cause fewer relevant prior art references to be submitted. If legislation would clarify the duty of candor and make patent applicants more comfortable in volunteering explanations and opinions about submitted prior art that

¹² Committee Print, p.10.

¹³ "A Patent System for the 21st Century," National Research Council of the National Academies (2004) at 99.

¹⁴ Committee Print, pp.10-29.

Intellectual Property Owners Association (IPO)

applicants are reluctant to express today because of fear of being charged with fraud, legislation could be useful.

DAMAGES WHEN INVENTION INCORPORATED INTO LARGER PRODUCT OR METHOD

Section 6 of the Committee Print provides that when an invention is incorporated into a known method or apparatus any award of damages will be based only on such portion of the total value of the method or apparatus as is attributable to the invention.¹⁵ The proposal appears to be directed at the so-called “entire market value” rule that has been applied by courts in cases where the patented feature is the entire basis for customer demand for the apparatus or method. Although the proposal states a principle that produces the fairest result when less than the total value of the method or apparatus is attributable to the invention, the proposal as drafted could produce unfair results or would not apply in some situations. In some cases the patented feature is the entire basis for customer demand for the apparatus or method. Some inventions involve eliminating a component from an apparatus or method. Some inventions combine two known inventions with the combination producing a new result.

CONTINUATION APPLICATIONS

Section 8 of the Committee Print prohibits presentation of a patent claim that is broader than claims presented at a specified earlier time in the patent application or a predecessor application.¹⁶ IPO agrees with the 2003 Federal Trade Commission Report stating that legitimate uses exist for amending claims in continuing applications, thus any proposal to address opportunistic broadening of claims should protect such legitimate uses. IPO members have expressed some support for placing limits on enlarging claims

¹⁵ Committee Print, p.31.

¹⁶ Committee Print, p.32.

Intellectual Property Owners Association (IPO)

in continuation applications, because continuation applications have been used to manipulate the patent system in certain cases. Applicants have kept so-called “submarine” patent applications alive in the PTO for many years and reshaped the claims as products or processes of others in an industry evolved. Concerns about submarine patent applications have subsided as a result of (1) the change of the patent term in 1995, so that it expires 20 years after the filing of the first application, (2) court decisions on “prosecution laches,” and (3) publication of most patent applications 18 months after filing starting in 2000. Some concerns about submarine applications still exist. The issues with the proposal in the Committee Print seem to be whether it would be effective, because it might be circumvented by presenting unreasonably broad claims at the outset in every case, and whether the time periods for enlarging claims are too short, given that applicants have legitimate needs to amend and enlarge their claims in some circumstances.

PUBLICATION OF ALL PATENT APPLICATIONS AFTER 18 MONTHS

Section 9 of the Committee Print requires publication of all patent applications 18 months after filing.¹⁷ The American Inventors Protection Act exempted applications from publication if the applicant requested an exemption because a corresponding application was not being filed in another country. Most countries publish all applications. We understand that about ten percent of applications filed in the USPTO are not being published. IPO supports publication of all applications in order to provide more information to the public at an earlier date and increase certainty about the scope of patent rights being sought.

¹⁷ Committee Print, p.33. A few applications are not published because of their importance to national security, and those application would continue to be withheld from publication.

Intellectual Property Owners Association (IPO)

PRIOR USER RIGHTS

Section 9 of the Committee Print also amends the section on prior user rights in the American Inventors Protection Act by (1) deleting limitation to “methods of doing or conducting businesses,” (2) deleting requirement for reduction to practice “at least one year before the effective filing date,” and (3) extending rights to “substantial preparation for commercial use.”¹⁸ IPO supports these changes to provide prior user rights for innovators in all fields of technology and to make prior user rights more effective. Prior user rights strike a balance between the interests of the first-inventor-to-file a patent application and another party who provided a benefit to the public by commercializing the invention early but chose to rely on trade secrets, which may be more effective for protecting inventions that can be used in secret, such as manufacturing processes.

COMBINATIONS OF COMPONENTS OUTSIDE U.S.

Section 10 of the Committee Print amends Section 271(f) to provide that an item supplied from the U.S. is not a “component” for purposes of patent infringement under that section unless it is a tangible item that is itself combined physically with other components to create a patented combination.¹⁹ Several IPO members have suggested that the recent Eolas and AT&T cases involving Section 271(f) may have been wrongly decided. IPO is studying the issue and has not yet taken a position. If the cases were wrongly decided, other options may exist in addition to the proposal in the Committee Print. IPO traditionally has not favored legislation that would create different rules for different categories of inventions, such as products and processes. We suggest studying the option of outright repeal of Section 271(f), which was enacted in 1984 in response to

¹⁸ Committee Print, p.34

¹⁹ Committee Print, p.49

Intellectual Property Owners Association (IPO)

a single Supreme Court decision and may not be important in today's global economy. Also, if the cases were wrongly decided, organizations in the patent community can be expected to file amicus briefs to seek clarification of the scope of existing Section 271(f). We cannot take a position on this proposal without further study.

Thank you again for the opportunity to discuss the Committee Print. We believe the Subcommittee has a good start toward a comprehensive patent law reform bill that would improve patent quality, increase certainty as to the scope of legal rights, and reduce litigation burdens.

We look forward to working with the Subcommittee as it develops formal legislation on patent law reform.

.....

Appendix: IPO Recommendations on Post-Grant Opposition Proceedings

Intellectual Property Owners Association (IPO)

APPENDIX

IPO Resolution on Establishing a Post-Grant Opposition System

As revised at the 11/09/2004 Board Meeting and approved by the IPO Board of Directors

RESOLVED, that the Intellectual Property Owners Association supports amendment of the patent laws to establish post-grant opposition proceedings in which patentability of issued claims can be reviewed by Administrative Patent Judges of the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office, provided such proceedings include the following attributes:

1. [Time for Filing] - Any request for a post-grant opposition must be made no later than 9 months after the date of the patent grant;
2. [Grounds] - Any ground of patentability, with the exception of “best mode” (35 U.S.C. § 112, 1) and derivation (35 U.S.C. § 102(f)), may be raised in the request, but no issues of priority of invention (35 U.S.C. § 102(g)) nor enforceability shall be considered;
3. [Threshold Showing] - Any party requesting initiation of an opposition proceeding shall be required to make a threshold showing of unpatentability of at least one claim of the patent before the patent owner is required to respond to the opposition;
4. [Discovery] - Discovery from a party to an opposition shall be limited to cross-examination of declarants;
5. [Additional Evidence] - Following initiation of a post-grant opposition proceeding, the party requesting the proceeding shall not be permitted to advance a new ground of unpatentability in the opposition proceeding;
6. [Claim Amendments] - The patent owner shall have the right to amend its claims in its response to the initial request and after any new prior art is presented by an opponent after filing its initial request;
7. [Other USPTO Proceedings] - No party to the opposition proceeding shall be prevented by the opposition proceeding from filing other concurrent or subsequent proceedings in the United States Patent and Trademark Office;
8. [Standard of Proof] - The standard of proof to be applied for determining unpatentability of a claim during a post-grant opposition proceeding shall be the clear and convincing evidence standard;
9. [Estoppel] - A judgment in favor of patentability of any claim in the opposition proceeding shall estop the opposer from challenging validity of that claim in other proceedings on the basis of evidence and prior art presented during the opposition proceeding;
10. [Duty of Disclosure] - The patent owner’s duty of disclosure during the opposition shall be no greater than that applicable to a party in litigation before a Federal court;
11. [Length] - The opposition proceeding shall conclude within 12 months of the expiration of the 9-month post-grant request period and any patent claim surviving the opposition proceeding unamended

Intellectual Property Owners Association (IPO)

shall be subject to day-for-day patent term adjustment for any period of pendency of the proceeding beyond the 12 months, excluding delays caused by the patent owner;

12. [Identity of Opposer] - Any party requesting initiation of a post-grant opposition proceeding must disclose its identity to the patent owner in the opposition proceeding;

13. [Infringement Suit] – In the event an infringement action is brought against an accused infringer prior to the filing of a post grant opposition request by the accused infringer, then any opposition proceedings involving the patent shall be stayed until the infringement action is finally resolved;

14. [Appeal] - Judicial review of a post-grant opposition proceeding shall be exclusively by way of appeal to the Court of Appeals for the Federal Circuit;

15. [Consolidation] - Multiple oppositions against a single patent shall be consolidated into a single opposition action following the expiration of the nine-month filing period; and,

16. [Right to Hearing] - Parties to an opposition shall have the right to a hearing before the decision of USPTO on the opposition is reached.